

**Statement of Thomas A. Danjczek
President
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**in support of S. 2390
*The Freedom to Transport Act of 1998***

**Before the
Senate Commerce, Science and Transportation Committee
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Good afternoon, Mr. Chairman, Ladies, Gentlemen. I am Tom Danjczek, President of the Steel Manufacturers Association ("SMA"). I am here today to ask that you and your colleagues support S. 2930, the Freedom to Transport Act of 1998, because:

- *Reform of the Jones Act is Necessary to Maintain the Competitiveness of the U.S. Steel Industry.*
- *Reform of the Jones Act is Good Environmental Policy*

The SMA

The SMA is the primary North American trade association of electric arc furnace carbon steel producers, often referred to as "minimills." The 62 member companies of the SMA comprise a competitive and dynamic segment of the U.S. steel industry, and account for almost half of all steel production in the U.S.

SMA members make steel from a feedstock of virtually 100% iron and steel scrap. Our members are the largest recyclers in the country, recycling last year over 43 million tons of scrap that would have otherwise littered the countryside or taken up landfill space. We are proud of the contribution we make each day to the environment.

The Jones Act

The Section 27 of the Merchant Marine Act of 1920 ("The Jones Act") requires that all goods shipped from one U.S. deepwater port to another be carried on vessels built in the U.S., registered in the U.S., staffed by U.S. crews, and owned by U.S. citizens.

The Jones Act is an outdated, protectionist measure. It distorts domestic waterborne transportation markets, costs U.S. taxpayers billions of dollars in increased shipping costs, and has cost thousands of jobs in industries such as agriculture, metals, and petroleum.

S. 2390

The narrowly-tailored, limited reform of the Jones Act proposed in S. 2390 would rescind only the U.S.-build requirement, for shipments of forest products and bulk cargoes.

The small number of U.S. shipbuilders, who would face a competition if S. 2390 were passed, oppose the bill, wishing to remain protected in a cocoon of monopoly markets.

Despite Jones Act protections and subsidies, the record of the U.S. shipbuilding industry has been dismal. The Jones Act fleet is one of the oldest in the world. There are few, if any, intra-U.S. coastal freighters with capacities over 1,000 tons operating on the East and West coasts. More than 60 shipyards have gone out of business in the last 40 years, which eliminate over 200,000 U.S. jobs. The ironic truth is that the Jones Act has nearly destroyed our country's merchant fleet.

The number of U.S.-flagged cargo ships has fallen from 3,644 in 1948 to 351. Only 128 of these are of the oceangoing variety, weighing more than 1,000 tons. Not a single big freighter works the East Coast. Only three nations have fleets with an average age older than that of the United States'.

The U.S. share of the world shipping market has plummeted as well, from 43 percent in 1950 to about 4 percent today. And foreign companies carry 97 percent of all cargo between U.S. and foreign ports. U.S. cities have been hurt. For example, Seattle loses \$100 million a year in business to Vancouver, Canada, because of the ban on cruise ships between Alaska and West Coast ports.

Not only has the Jones Act failed to protect the American merchant fleet, it has failed to preserve jobs. Shipboard jobs have disappeared, from 160,000 in 1945 to about 4,800 today in the coastal and Great Lakes fleets, while longshore positions have declined 60 percent in the last 20 years. --- partly due to automation. Meanwhile, 60 shipyards closed in the 1980s. The last U.S.-flagged merchant ship was built in 1992.

The cost to provide Jones Act subsidies is staggering. Congress provides \$214 million in direct subsidies to U.S. shipowners and sailors. In addition, the federal government, in shipping military goods and food aid, spends \$700 million more

annually than it would cost to use foreign carriers. Jones Act direct subsidies total about \$1 billion annually. Moreover, American consumers pay \$10.4 billion per year in higher prices because of the law, according to the U.S. International Trade Commission.

Competition Would *Benefit* the Domestic Shipping Industry

I cannot help but think of the steel industry of the 1970s and early 1980s. At that time, steel was perceived to be in a perpetual downturn. Many steel companies went bankrupt or underwent reorganization. Others faced severe financial difficulty, reducing output by over one third in the period 1975-1985.

Today, the U.S. steel industry is once again a vibrant, dynamic, internationally competitive industry, even though the U.S. has the most open markets for international trade in steel products. *Competition*, from both domestic and foreign sources, is forcing inefficient and high cost producers to streamline and cut costs wherever possible. *Competition* has fostered a revolution in the U.S. steel industry.

We hope that the Senate will look to the success of the steel industry for a solution to the complacency and stagnation of our domestic shipbuilding industry.

The Jones Act Undermines the Competitiveness of the Steel Industry

U.S. steelmakers must compete against steel companies around the world. Yet, the Jones Act prohibits our industry from using the full range of transportation options available to our foreign competitors.

The effects of the Jones Act on SMA member steel companies include:

- a protected shipping industry;
- artificially high rates to ship steel and raw materials by water;
- constriction of transportation options for steel companies, thereby straining the demand for truck and rail service;

The Environmental Price of the Jones Act

Environmental resources, such as clean air and a litter-free countryside, are economic externalities to which it is difficult to assign a dollar value.

The Jones Act has distorted shipping costs to such an extent that anomalies occur. For example, it is cheaper to ship a load of scrap from an East Coast port to Turkey than to another port in the U.S., because of the Jones Act. Foreign ships pick up goods from the Canadian side of the Great Lakes for delivery to the East Coast, but no oceangoing U.S. ship uses the St. Lawrence seaway. U.S. steel producers therefore lose some of their valuable feedstock — iron and steel scrap — to foreign steelmakers.

The Jones Act also leads to the export of energy. By making steel from a feedstock of 100% scrap, EAF steel producers use four to five times less energy to produce a tons of steel than integrated, ore-based steelmakers do. EAF steel production also emits one-third the amount of carbon dioxide — the major greenhouse gas — than ore-based steel production, on e a tons of steel produced basis. By exporting scrap, the U.S. therefore exports energy and the ability of its steel industry to reduce greenhouse gas emissions.

The Jones Act has far outlived its usefulness and needs thorough reform. Taxpayer subsidies to American ships should be abolished. Water transportation should be freed to compete with railroads and trucks.

There would be a substantial revival of port jobs, lower consumer costs and a more favorable trade balance if restrictions on shipping and carrying passengers between U.S. ports, including the Great Lakes, are lifted.

The environment would benefit. One small coastal freighter sailing between Maine and Florida can carry the same cargo as 100 trucks — but emits two-thirds less pollution and saves \$40,000 in road damage.

The U.S. has one of the largest coasts in the worlds and no coastal freighting business. Why not let competition begin to occur? Accordingly, we respectfully urge you to pass S. 2390.